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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001245

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SUBJECT: DIRECTOR'S INTRODUCTORY CALL ON TAOYUAN MAGISTRATE
ERIC CHU, APRIL 6, 2006

Classified By: Director Stephen M. Young, Reason(s): 1.4 (B/D).

11. (C) Summary: Taoyuan Magistrate Eric Chu told AIT Director Young that now is the time for the KMT to act responsibly on national defense and other matters, even if it means sharing credit with President Chen's DPP government. During an April 6 meeting with the Director, Chu (a close advisor to KMT Chairman Ma Ying-jeou) said Ma had become a presidential candidate and therefore had to work with the DPP government to solve Taiwan's defense impasse or share blame for its continued existence. Ma could only use the National Unification Council/Guidelines "excuse" for a month or so, said Chu, without risking a public backlash. Chu admitted the KMT had been acting unreasonably on defense, and said now was the time for the KMT to adopt and execute policies consistent with those that Ma would endorse as president. KMT-PRC interactions may be less smooth when the KMT is in power, said Chu, but the KMT will try to reduce friction by avoiding Taiwan independence themes. End summary.

12. (C) The Director told Chu that in his meeting with KMT Chairman Ma Ying-jeou, he had stressed how certain topics must be sheltered from Taiwan's fractious politics-as-usual, especially Taiwan's defense needs and the U.S.-Taiwan relationship. These issues are tied together because the U.S. is Taiwan's most important political, economic, and security ally. Chu responded that he had met with Ma in Taoyuan the day before, and he had tried to impress upon Ma that meeting with President Chen had changed everything. Ma was now more visible and therefore more responsible in the public eye for Taiwan's current situation than he had been before. Chu said he told Ma that he had become a "potential presidential candidate." He must now establish a working relationship with the ruling DPP or face greater blame for the ongoing stalemate.

13. (C) Chu told the Director that he recently met with several DPP leaders who said they were preparing their party to become the opposition. Chu told them the KMT was also preparing itself to become the ruling party. In light of the upcoming transition, it was time for both parties to "act reasonably" again. Chu said the DPP is "stuck" on domestic issues, unable to make the necessary compromises with the KMT for fear of looking weak. For its part, the KMT is also acting unreasonably, especially on defense issues, and increasingly runs the risk of getting blamed for the decline

in Taiwan's relative security. Chu said he and Taichung mayor Jason Hu had earlier emphasized this risk to Ma, and Chu believes this is why Ma agreed to get the KMT to generate its own "alternative" arms procurement proposal.

¶4. (C) Chu opined that Ma is using the National Unification Council/Guidelines debacle as an "excuse" for the delay in his promised review of the arms procurement budget, but he can only do so for a month or so before getting into trouble.

Chu predicted that, if the KMT does not come up with its promised proposal soon, Ma and the KMT will be increasingly accused of putting politics before national security. Certain members of the KMT Legislative Yuan (LY) caucus will always raise objections, cautioned Chu, but the party (read Ma) must act responsibly, or face the blame.

¶5. (C) The Director responded that maintaining an adequate defense posture was also important to Taiwan's relationship with the PRC. It is important for the PRC to know that, despite its desire for improved cross-Straits relations, Taiwan has the will and the capability to defend itself, and that the U.S.-Taiwan relationship is strong. Only in this way can the PRC be made to understand that Taiwan will not submit to the threat of force. The Director said the increasing perception in the U.S. is that Taiwan's leaders have allowed its defense policy to "drift." He added that U.S. decision-makers hold the Greens and the Blues equally responsible for the problem, as well as for finding a solution.

¶6. (C) Chu said he understood the U.S. frustration, and predicted that all parties would agree to a "reasonable" arms procurement. The Director asked Chu to help the KMT find common ground with its opponents on the defense issue. The

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KMT should not defeat future arms procurement proposals simply because the DPP might get credit. Chu said the time has come for the KMT to adopt and execute the policies that it will hold when it assumes power. The parties can continue to argue about constitutional reform and the existence of "One China," said Chu, but not about national security. The Director said he was glad to hear this, noting that, since Taiwan had lost considerable ground vis-a-vis China, now was the time to catch up.

¶7. (C) The Director told Chu that he had heard conflicting opinions on the state of Taiwan's economy, and he asked Chu's opinion. Chu replied that Taiwan's economic growth and performance have dropped off recently, but Taiwan remains in relatively good economic condition when compared with the rest of the world. Chu acknowledged that Taiwan's GDP growth rate had dropped two points from its 2004 seven-year high, but it still remains at a healthy four percent. Taiwan per capita income also continues to increase but, for the first time, is less than Korea's. Chu said Taiwan stands to gain considerably from PRC tourism. Taiwan businesses could also benefit from allowing China-trained engineers to work on the Taiwan economy. He noted that he and Ma have discussed the idea of removing restrictions on Taiwanese investment in China, with an eye toward preserving and promoting Taiwan's niche advantage in tech-intensive, precision manufacturing.

¶8. (C) The Director commented that as the party in opposition the KMT enjoys a special but temporary relationship with the PRC. The KMT should expect China to become much less flexible once the KMT assumes the presidency. The PRC continues to hold the traditional view that Taiwan is part of China, and that the PRC can dictate the terms of Taiwan's return. The U.S. view is that, whatever future agreements are reached with China, they must accord with the views of Taiwan's democratic population. Chu said he expects the KMT to encounter many of the same problems with China as Chen's DPP government has. But he hopes the KMT will be able to reduce friction by assuring Beijing that a KMT government will not push to change Taiwan's name, its constitution, or

its current status. The KMT will push to preserve Taiwan's political separation and to increase its diplomatic space, both difficult tasks. Chu said he expected the PRC to remain a military adversary until it transforms into a full democracy.

19. (C) Comment: We found Chu more pragmatic (or at least more outspoken) about the challenges facing his KMT party than his boss, Ma Ying-jeou. Chu is believed to be one of Ma's closest advisers. Therefore his views on KMT politics have heightened importance as Ma consolidates his leadership position within the party and prepares his 2008 presidential bid.

YOUNG